



# **Sales Tax - All About That Base**

# Presentation Outline

- Tax base x tax rate = tax revenue
- Other tax bases
- Sales tax base and rate

Bottom line – Utah's sales tax base is narrowing,  
state needs to address this challenge

# A Few Questions to Consider

- Why doesn't new revenue from economic growth cover the basic costs of growth?
- At what point do we run out of sales tax rate “headroom” (economic and political capacity to increase sales tax rates)?

# Tax Base x Rate(s) = Tax Revenue

- Focus often just on revenue, or sometimes on the rate
- But how revenue is generated is critically important in how it impacts the economy for good or ill
  - **Base** = what is taxed (some measure of economic activity or value)
  - **Rate** = level at which it is taxed
- Policymakers should pay attention to the base and rate, as well as revenues
  - For a given amount of revenue, different base/rate combinations can have dramatically different effects on the economy

# Public Finance Experts Widely Recommend Broad Base and Low Rates

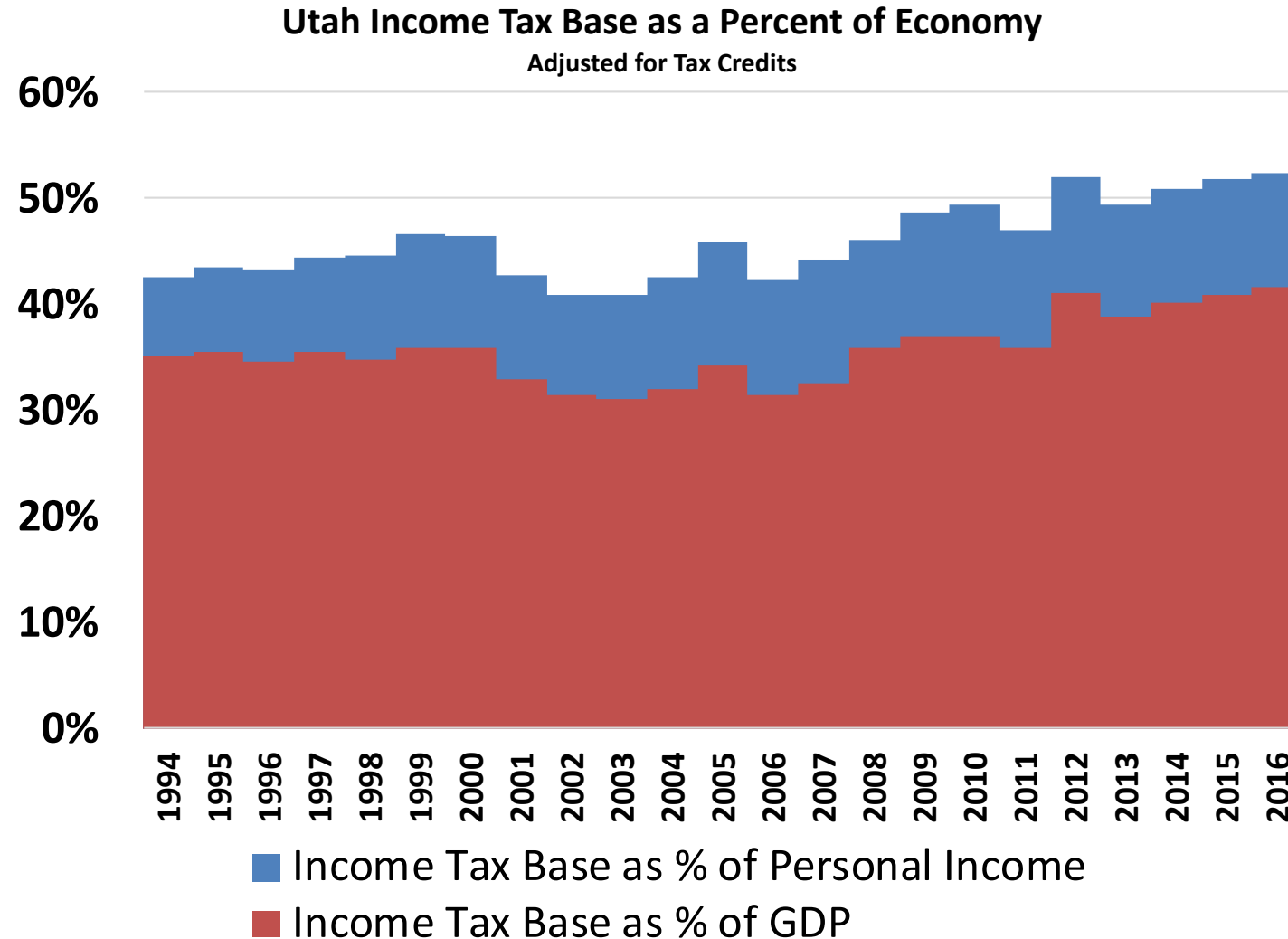
Broad base and low rates



v. Narrow base and high rates

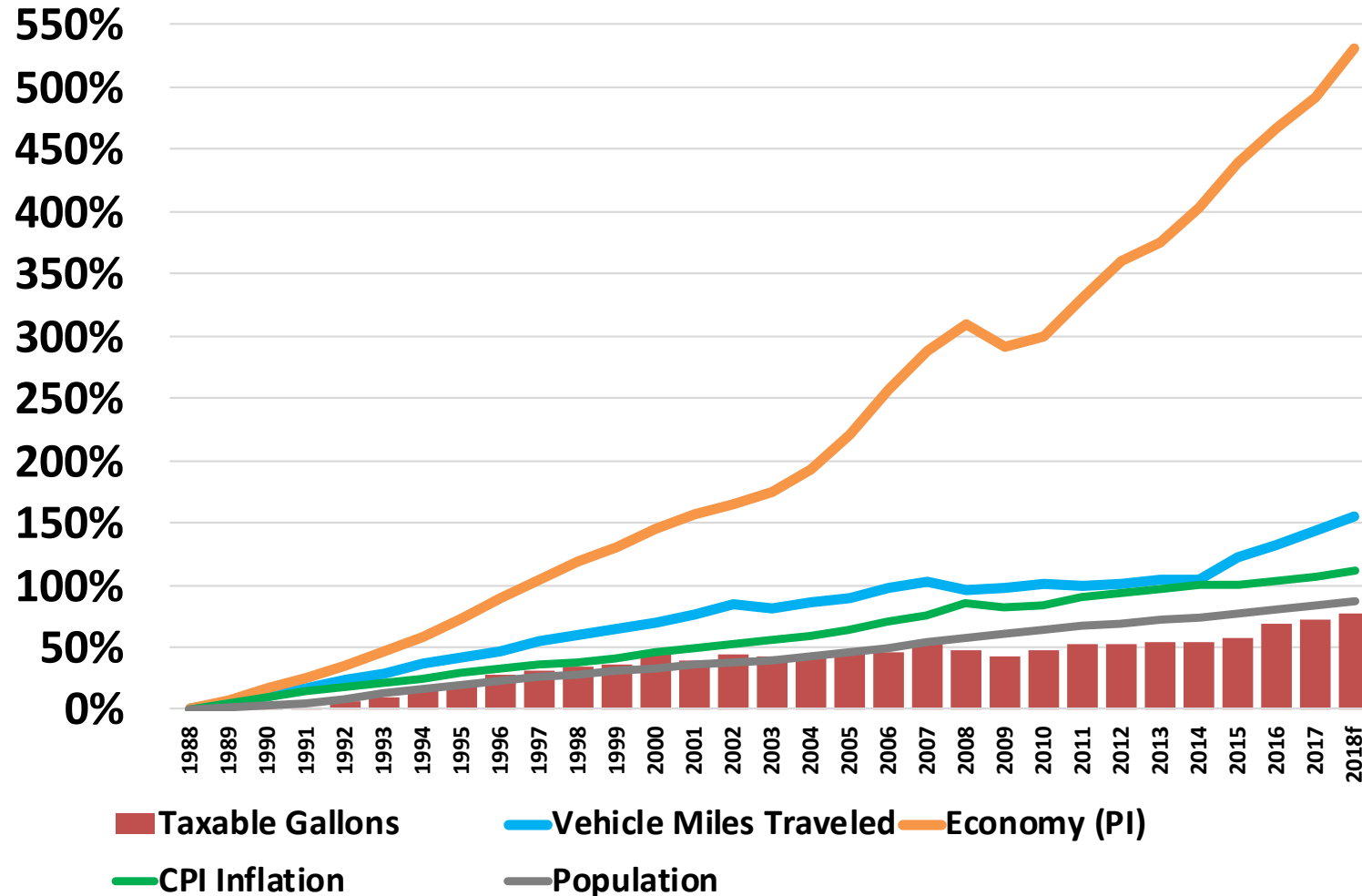


# Individual Income Tax Base - Well Aligned with Economy



# Gas Tax Base

Growth Rate Since 1988





# Sales Tax Base Has Changed

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MARKETS

## 'Amazon Effect' Leads Investors to Sour on Global Retail

Seattle-based giant is hastening the global shift to online shopping, raising questions about retail operations world-over



Inside Amazon's fulfillment center in Hemel Hempstead, U.K., in a 2015 file photo. PHOTO: ADRIAN DENNIS/AGENCE FRANCE-PRESSE/GETTY IMAGES

## Decline in US retail sales confounds analysts after tax cuts



Shoppers in America spent 0.1 per cent less last month despite a 0.4 per cent rise being forecast. EDUARDO MUNOZ ALVAREZ/GETTY IMAGES

**BUSINESS**

## What in the World Is Causing the Retail Meltdown of 2017?

In the middle of an economic recovery, hundreds of shops and malls are shuttering. The reasons why go far beyond Amazon.

CNN Money

## Stores are closing at an epic pace

by Jackie Wattles @jackiewattles

Feb 22, 2017: 3:58 PM ET

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Forbes

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## What If Retail Traffic Declines Last Forever?



Steve Dennis Contributor

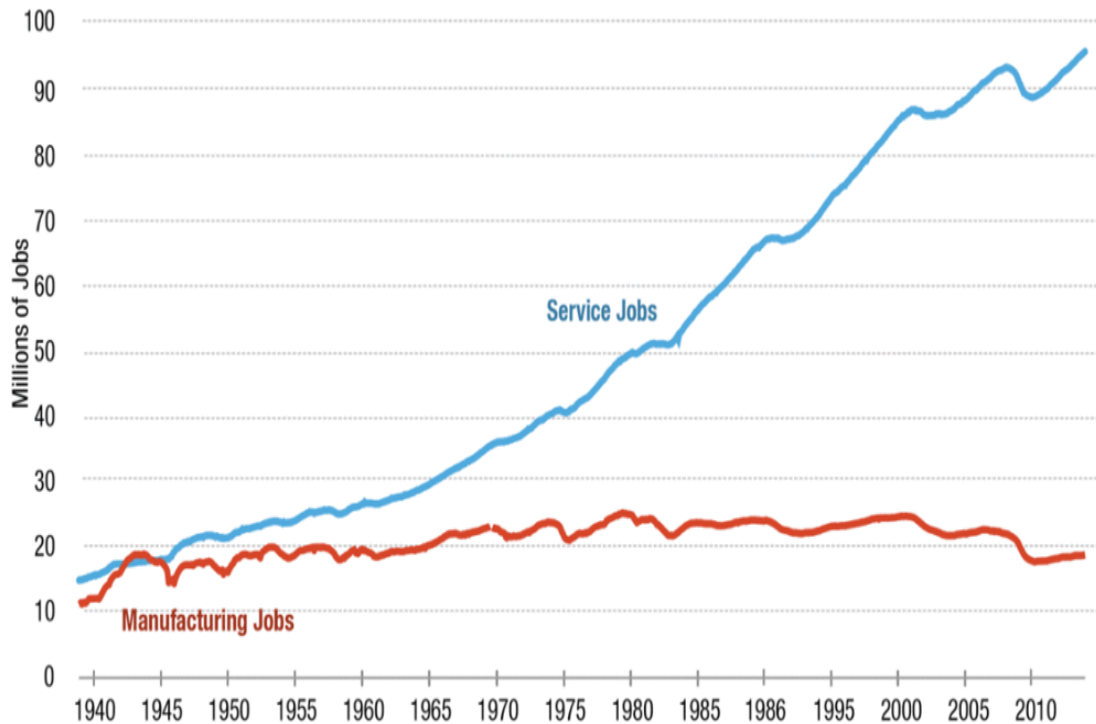
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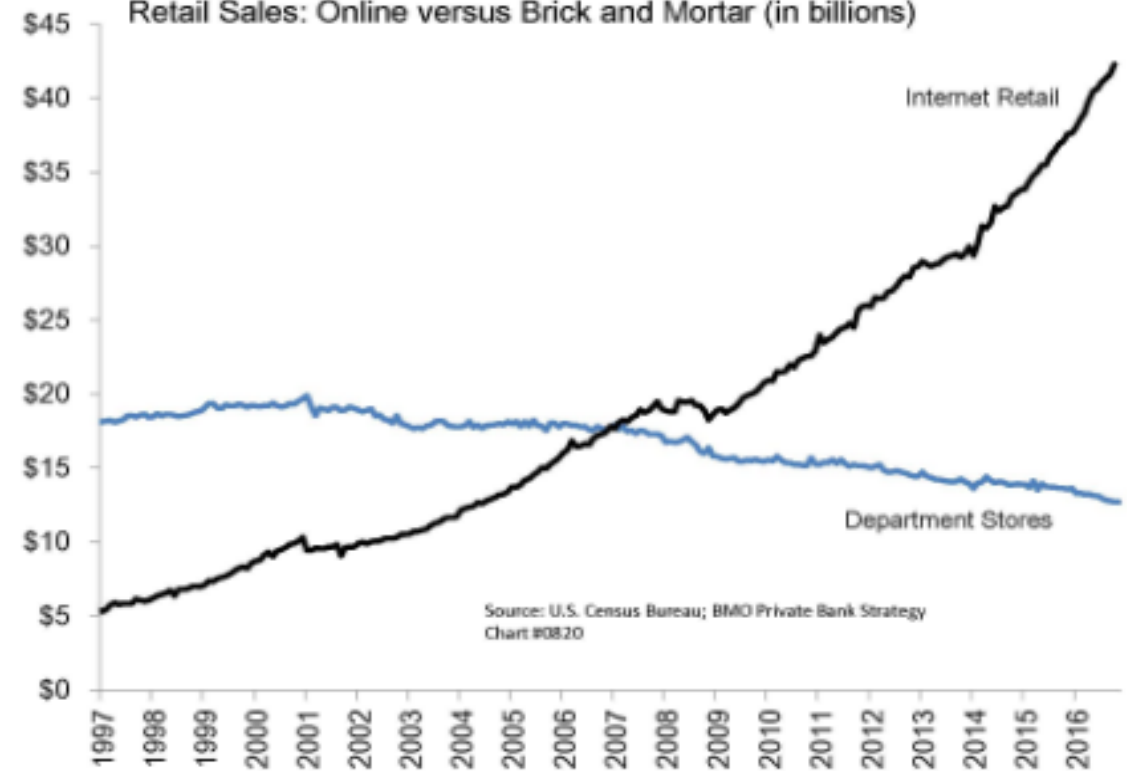


# Sales Tax Base Has Changed

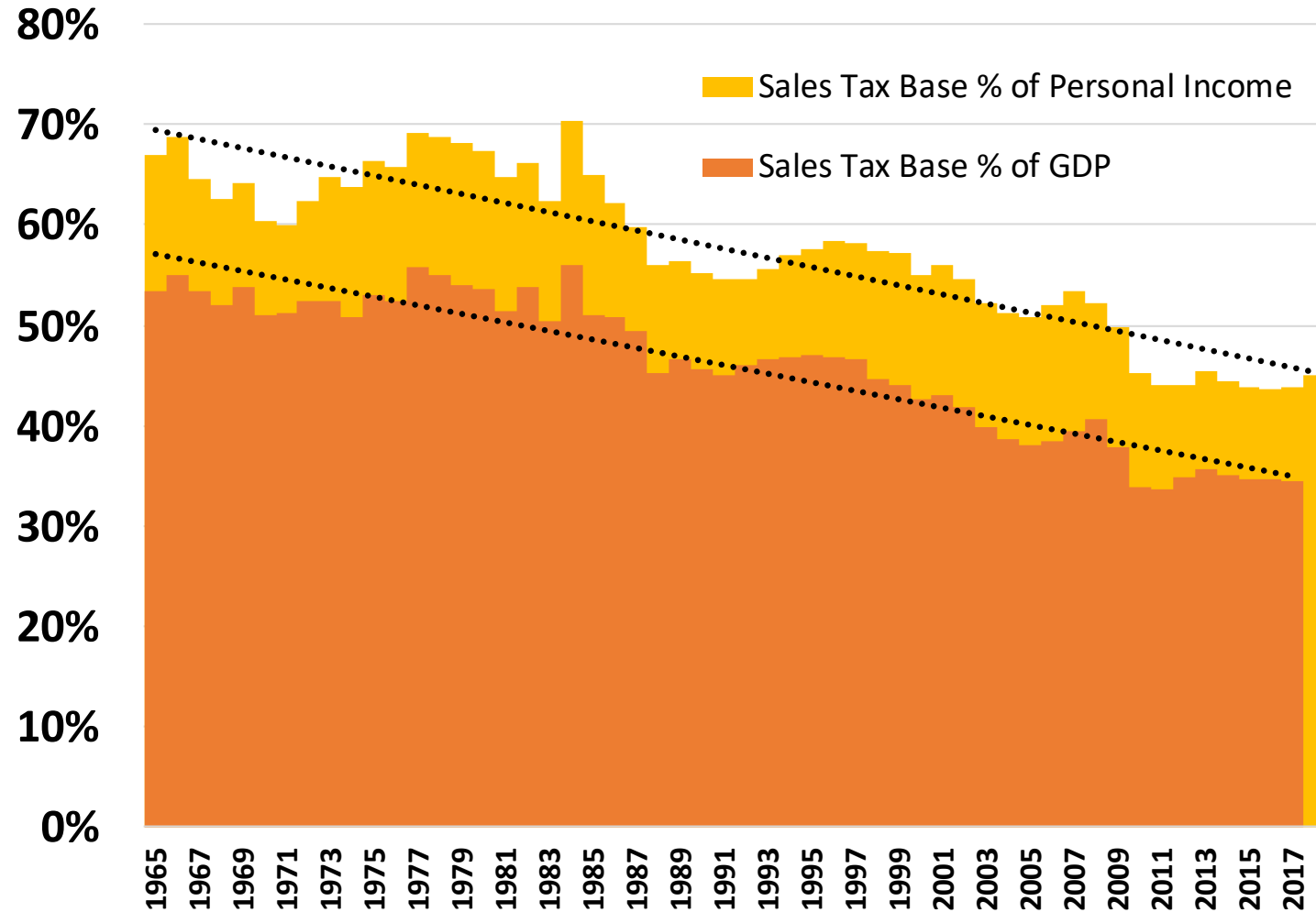
Manufacturing Jobs Stagnate; Service Jobs Boom



Retail Sales: Online versus Brick and Mortar (in billions)



# Sales Tax Base Poorly Aligned with Economy



# Why a Narrowing Sales and Use Tax Base?

## Changing purchasing patterns

- Continue to purchase more services relative to goods
- More sharing/renting and less owning
- Since the Great Recession: less spending, higher savings rates, more debt pay down, increased lending regulation, and low wage growth

## Demographic changes

- Rising millennials and aging baby boomers

## Cross-border shopping

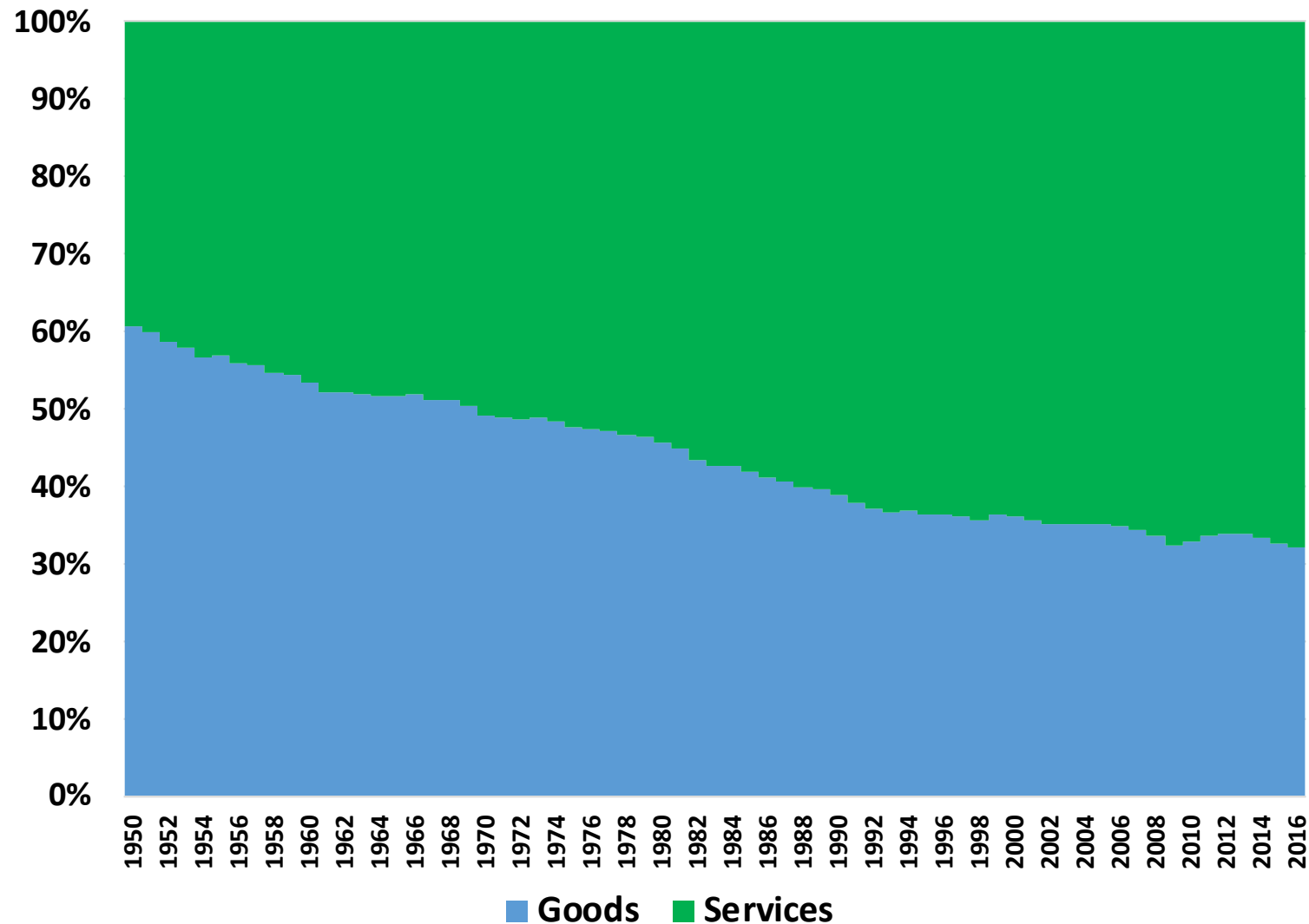
- Internet, phone, and catalogue purchases

## Technological change

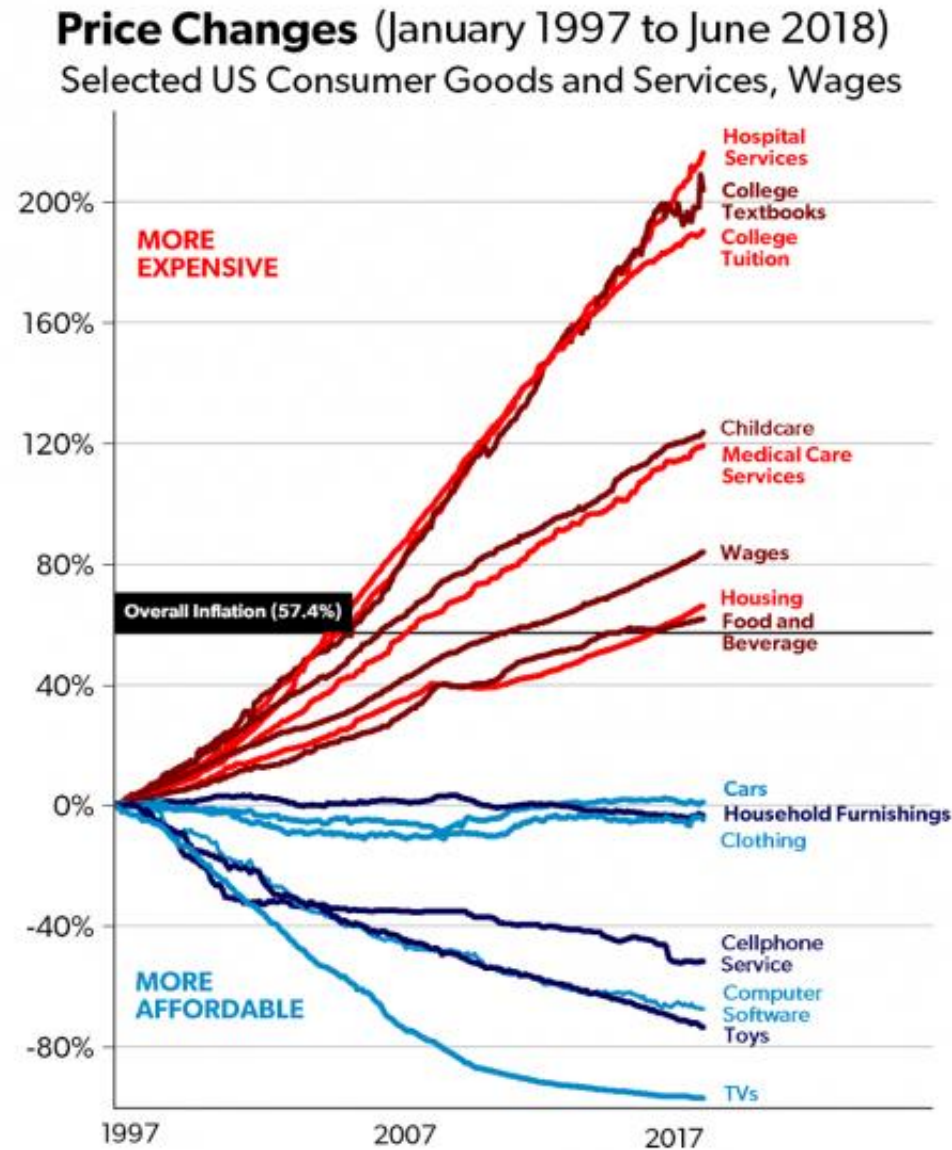
- Digitization of goods (software, books, music, streamed media)
- New opportunities that make taxing consumption difficult

## Legislated exemptions

# Goods and Services in US Economy



# Price Changes in US Economy

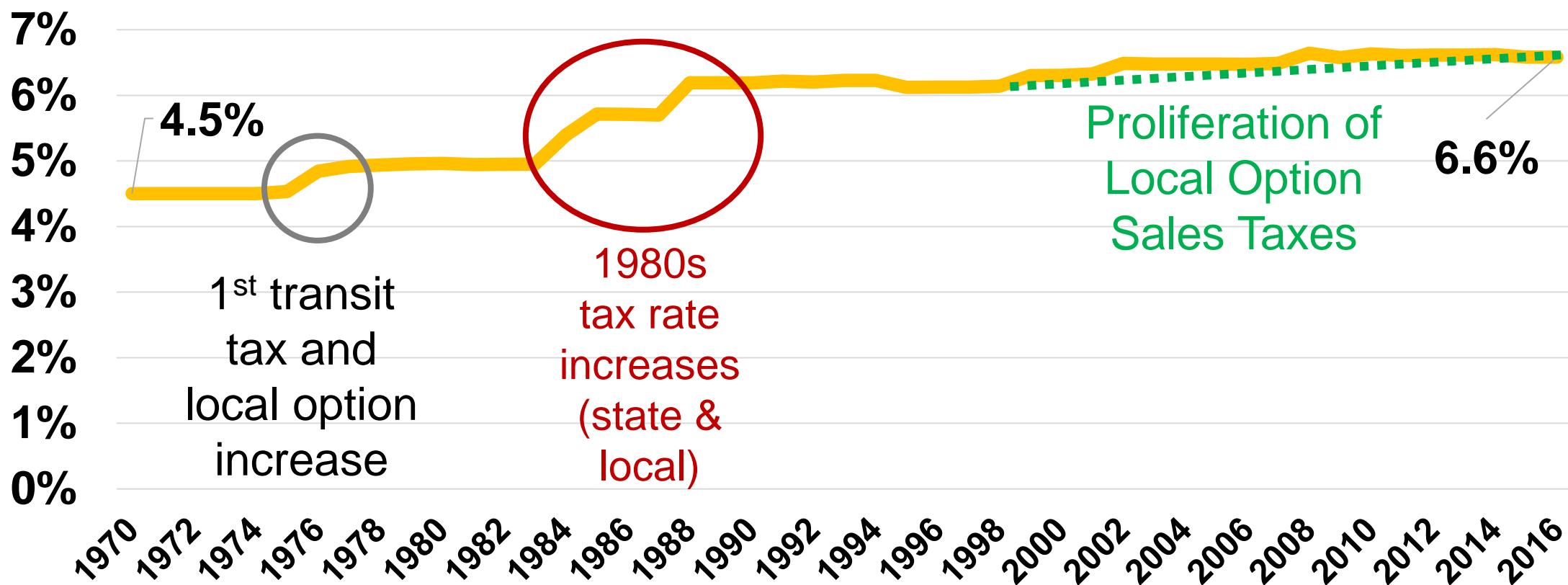


Source: BLS

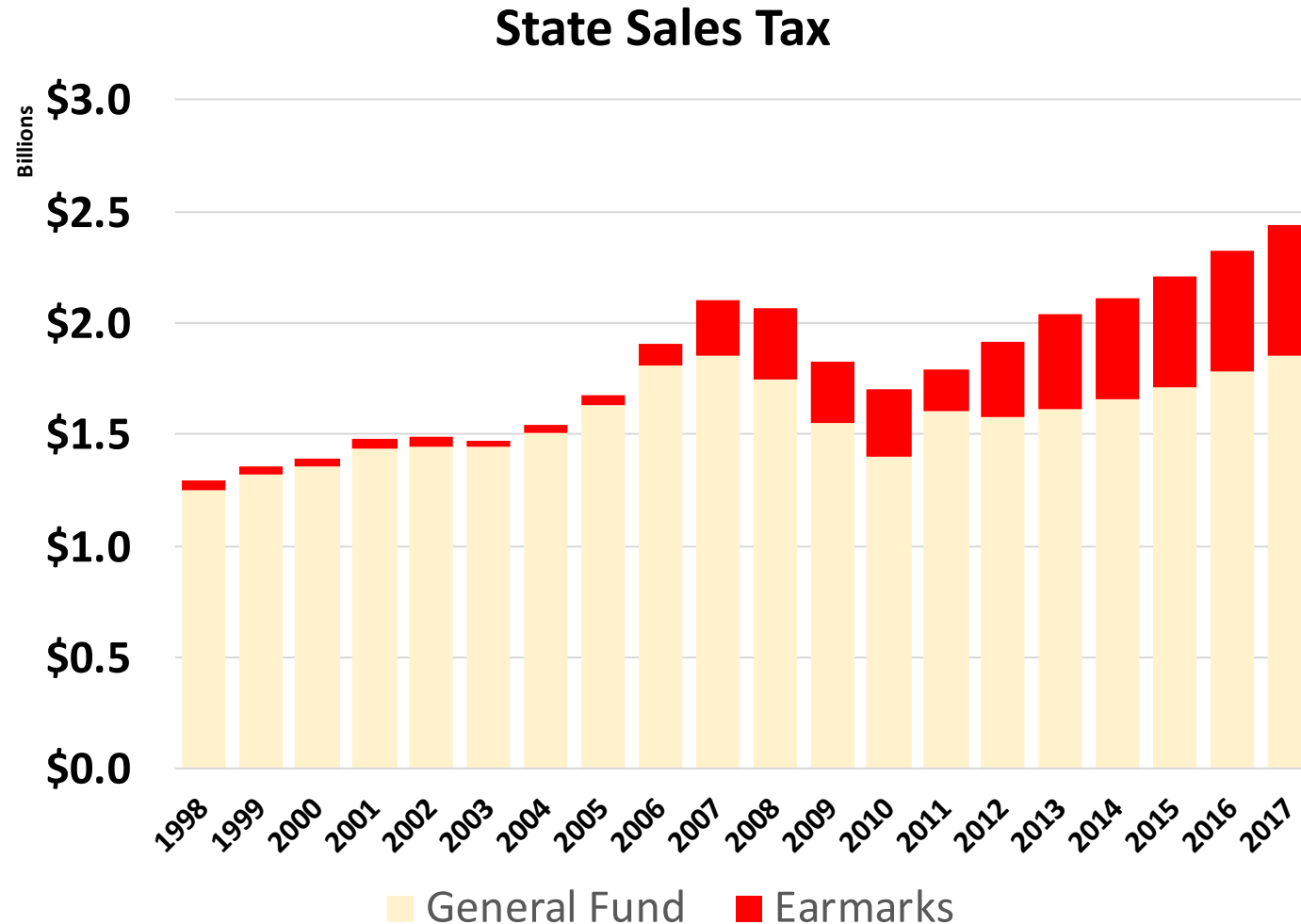
Carpe Diem **AEI**

# Response To Narrowing Base Has Been To Increase Rates

Combined State and Local Sales Tax Rate (derived)



# Major Portions of State Sales Tax Earmarked





# Sales Tax Base Will Continue to Change

## Technology

### Ford to Sell Driverless Cars to Public by 2025, CEO Says

*G.M. Says Its Driverless Car  
Could Be in Fleets by Next Year*



General Motors says its Cruise AV, with no steering wheel or pedals, could be ready for commercial ride services next year if it gets the necessary federal and state approvals. G.M.

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Mark Matousek Jan 23, 2018, 2:21 AM



Bloomberg

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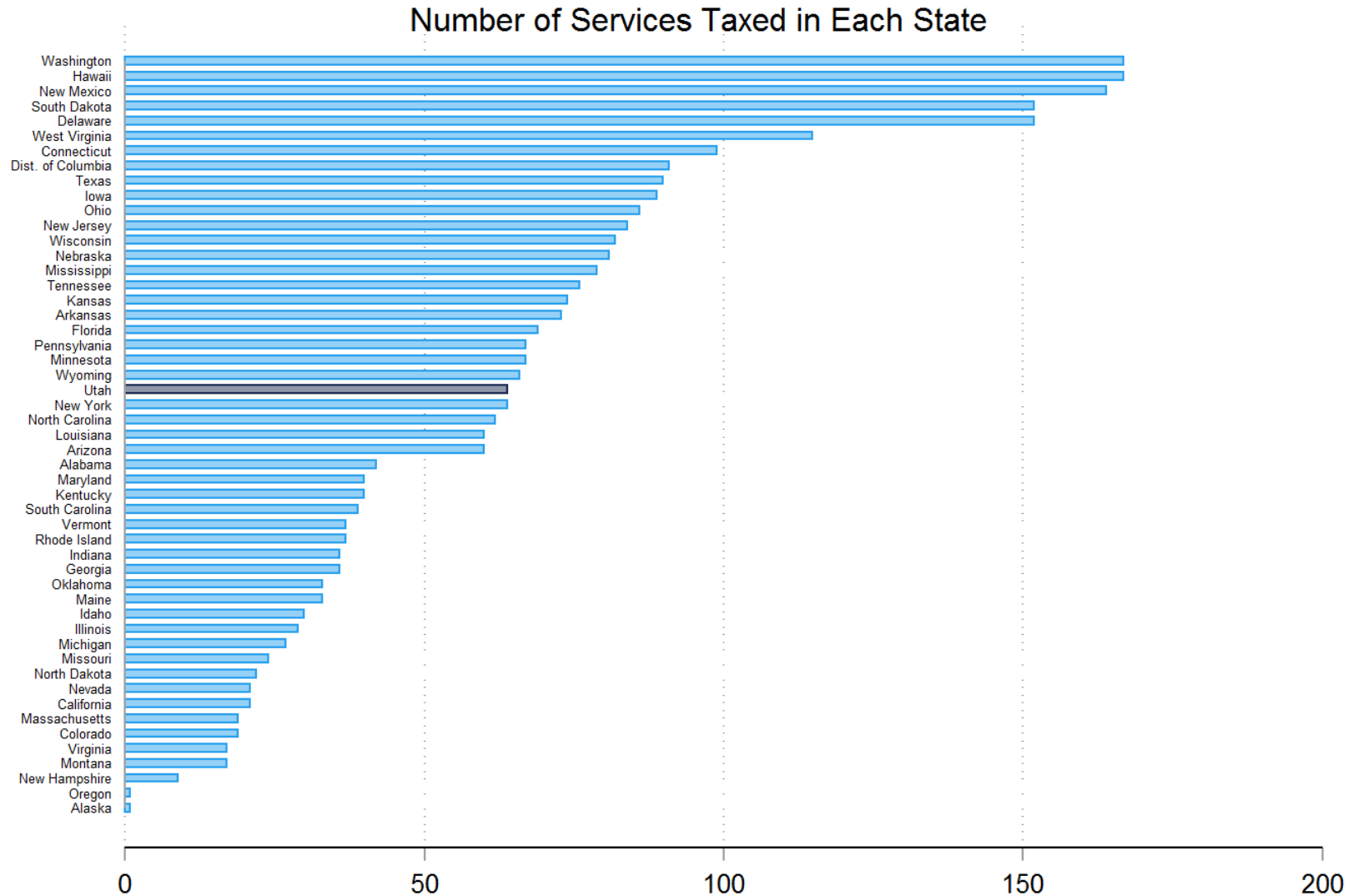
What is Amazon Prime Day?  
Everything you need to know  
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Climate-Changed

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A robotics expert predicts that kids born in  
2017 will never drive a car

# How Does Utah's Sales Tax Base Compare With Other States?



Source: Federation of Tax Administrators

# Sales and Use Tax Base Lessons

- Sales tax base has become less and less aligned with economy
- Although improved remote sales collections will help, sales tax base likely to become less and less aligned with economy over time, including in the transportation sector
- Sales tax is...
  - The primary revenue source for the State's General Fund
  - A larger state revenue source for transportation than the state gas tax
  - A key local government revenue source
- Historical response to narrowing base has been to increase rates
- Broadening tax base would allow for lowering of tax rates, improve equity, stability, and tax system neutrality